"ROLE OF AGRICULTURAL CO-OPERATIVES IN THE MARKET PLACE"

by K.W. Edwards C.B.F.

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Marketing can be defined as the process of taking a commodity and adding maximum value to it at the minimum cost, says David Pickard, Managing Director of Produce Studies Ltd., London.

This definition shows what marketing does - it adds value to the original product. For instance, it takes a chicken from a farm, kills it, plucks it, cleans it, gets it to the supermarket. It might cut it up and it could even part-cook, flavour and package the chicken ready to put it into the oven just to be heated before eating.

Marketing is a positive process - the marketer takes steps to 'add' something to the value of the chicken. If you ask - value in whose eyes? - the answer is value in the eyes of whoever is going to buy the product from you.

The housewife (in most major markets in the world) no longer wants to take home a live chicken and very often she wants it nearly ready to serve and is willing to pay to get it in that form.

So, as marketers, we co-operatives have to know what customers want, in what form they want it, where they want it, how much they will pay, and we have to ensure that there will be reliable flow of the goods on to the market.

To meet these needs the farmers' products must be transported, stored, financed, processed, packaged, shipped, wholesaled, promoted and retailed.

In Australia, co-operatives perform some of these 'value adding' processes for just about every rural commodity produced in this country.

About 18% of the wool clip is sold by co-operatives. (At the end of 1972 the six major wool broking, livestock selling and merchandising co-operatives in Australia associated together to form a joint subsidiary organisation, with the object of rationalising and improving their selling practices and trading and to generally interchange experience and knowledge. These six co-operatives represent some 80,000 producers in Australia).

It is estimated that over 50% of the liquid milk trade in Australia is handled co-operatively. We've recently witnessed the way in which dairy co-operatives are strengthening their position in the industry by amalgamations and acquisitions.

The Australian Wheat Board uses co-operative agencies in Western Australia and South Australia to carry out the bulk handling of its wheat, and we should not overlook the fact that it was through the enterprise of the Grain Pool of Western Australia and Co-operative Bulk Handling Ltd, that barley and oats were first exported in bulk from Australia.

Rice production, processing and marketing is co-operatively controlled and organised and about 50% of the sugar mills engaged in extracting sugar in its raw state are grower owned.

About 25% of wine producing operations are in the hands of co-operative organisations, while about 60% of the cotton produced in Australia is processed up to the milling stage by co-operative organisations.

From a sample analysis it is estimated that about 40% of the country's vegetable production and marketing operations are controlled by co-operatives and of the total fisheries operations within Australia, about 50% are controlled by co-operative organisations.

Agricultural co-operatives in Australia are big business and getting bigger.

Foreshadowing the demand for our rural products - particularly in a country like Australia where we are producing, not for a home market, but generally for the world - is always difficult.

Looking back it seems that the world has under-estimated the requirements that are building up for better quality foods. In Australia a 10% increase in incomes leads to about 2.5% rise in consumer expenditure on beef; but probably also leads to a decline in the expenditure on starchy foods, such as bread and potatoes. The world's housewife wants something she can see in the supermarket, that is attractive and that is consistently available from January to December. She wants convenience.

We can see how the United States, as it became more affluent, has developed to the point where it has 207 million people munching their way through 10 million tons of beef every year.

We see the emergence of Japan as a country with an ever increasing standard of living, with 100 million people with more money available to be spent on food - much of which, like beef, has to be imported. (Hamburgers are an international word today).

We see also the Arab States developing a hunger for imported foods - fortunately for Australia they like mutton.

In places like Singapore too the demand for quality foods is growing fast. It is a world wide trend.

Then, of course, we must recognise that last year, world population went up by some 60 millions. Despite all the efforts of Dr. Erlich and Germaine Greer, world population will continue to rise for a number of years to come. More food will be needed and eaten.

For almost all food commodities, supply and demand are greatly influenced by the weather. (Only last week I read that the cumulative effects of world crop failures and the increased demand for wheat has led to record grain prices). Add to this the effects of the international monetary market, political upheavals, the process in the development of substitutes, and it is obvious that a farmer needs systematic and reliable information upon which to base his production decisions.

How can a co-operative in the market place help the farmer? - particularly as its a market

place which is ever changing and in which the 'added value' segment is now much greater than it was 10 or 20 years ago. Let me take meat as an example.

If all the statistics are correct - and the operative word is correct - the demand for meat will increase in the next decade. There are in this industry breeders, growers, agents, slaughtermen, packers, shipowners, wholesalers, exporters, promoters and retailers - all part of the marketing chain.

Co-operatives have the choice of participating in the first stage of the marketing chain - by simply selling the farmers' livestock to a processor- or they can become more involved in at least part of the 'added value' process; or they can participate right through to the point when the meat is on the supermarket counter.

A co-operative is in the market place to get a better return for the farmers. Obviously its scope for achieving savings is greater if it operates right along the chain from the farm gate to the retail shop. It increases the challenge, of course, as it means providing experts in many fields to be of service to the farmer.

My co-operative, Wesfarmers, made the decision that it was no longer sufficient to just sell livestock to the processors, and export live sheep. We believe that our members would benefit if we could develop killing facilities and a marketing network which would give farmers an investment in and income from the non-farm sectors of the meat industry. In other words, we would follow the livestock marketing process to the point where the meat from a Western Australian bred steer was sold in the supermarkets of Japan or Europe, or Perth.

This decision was made after a great deal of market research, by sending trained people into the market places of the world, to live in the 'hip pocket' as it were of the potential customers, to search for outlets for meat, offals, hides, skins and tallow - for the whole of the animal.

Having assessed the demand and determined the existence of outlets, the question then arose - how do we do it? We had no experience of the meat trade ourselves and to get into the business required skills and a large capital investment.

In the event we purchased a 50% interest in a newly built export abattoir and a 50% interest in the business of a specialist meat packer. Our partners in these joint ventures are experienced and successful operators in the meat trade. We have options to extend our meat interests in two years time.

Four years ago we started to buy meat from processors so that we could begin building up our marketing experience. Our first capital investment was made in the industry two years ago. This year we have exported meat and its by-products to a value of just under $5, 000, 000. (This is in addition to our considerable export business in fruits, dairy produce, live sheep, cotton and seeds).

To ensure the continuity of supply and quality for our export markets, we are experimenting in the development of feedlots. We are processing small goods- we have built a tannery for the production of finished skins for retail sale in local and export markets (supplied by skins from the abattoir).

We are posting Wesfarmers' staff overseas to promote our products and to keep a flow of in-

formation coming back as to what is happening at the customer end - what competition we face, what the supply position is, how he sees demand in the area, what sort of meat people want, whether there is a subsititute product nudging ours out of the way, etc. We in turn can tell our producers what the market wants and hopefully how they should produce livestock to suit the world's needs.

Vertical integration such as this is not new in Australia. It is being done by others. Murray Goulbourn have, I understand, a joint venture with a Japanese company in the production and marketing of cheese; and Producers Co-operative Distributing Society of Sydney has moved into the market place overseas with offices in London, Tokyo and Singapore. It's a means by which the co-operative can become market orientated, rather than producer orientated.

It gives it an opportunity to reach back towards the production base very quickly and secure response in order to adjust to market needs; or reach forward very quickly to make efforts to influence the market and more adequately reflect the producers' ability to supply that market with a particular product. It also ensures that the farmer/producer shares in the 'profits' of the middleman.

In the United States, the Department of Agriculture has a special Section which promotes agricultural co-operation; perhaps as a consequence the proportion of American farm produce being marketed through co-operatives is constantly on the increase.

In the U.S. today millions of farmers belong to co-operatives, which market no less than 27% of the total value of the products farmers sell, and sell to them to about 18% of the total supplies they use. Some co-operatives, like the Sun Kist orange people of California, are world wide traders. (All this in the highly competitive 'private enterprise' bastion of the U.S.A.) Last year exports by American co-operatives totalled $1.2 billions.

In the fiercely competitive European scene also co-operatives are well supported and market a very large proportion of agricultural produce.

The proportion of the national trade handled by co-operatives in West Germany is estimated to be:

- cereals and feeding stuffs	45%
- fertilisers	62%
- and pesticides	67%
- milk delivered to creameries	83%

In France we see co-ops. handling

- 50% of the cheese and wine
- 82% of the wheat crop
- 80% of the eggs.

In Denmark the percentage is even higher- there are 75,000 farmers in dairy co-operatives which handle 85% of total milk collected from farms while 99,000 farmers have memberships

in the co-operative bacon factories, which handle about 92% of the national trade in this commodity.

Co-operative Banking and Credit on the Continent is also very important. The Co-operative Bank in Denmark is registered under the Companies Act as a joint stock bank, with both co-operatives and individuals as shareholders. It is the fifth largest of the Danish banks. The Farmers' Credit Societies too are of prime importance, since it is estimated that 50% of the mortgage debt of real estate in Denmark has been financed by them.

ZEN-NOH, the National Federation in charge of the economic business of multi-purpose agricultural co-operatives in Japan has a turnover of approximately $ US 8,300 million.

In all of these large and complex communities, agricultural co-operatives have established themselves as a very vital factor.

They own abattoirs, packing stations, processing plants and warehouses and successfully provide a complete link between the farmer who produces and the housewife. They are a force in the market place.

It is good to see that the Federal Platform and Policy of the Australian Labor Party has as the first point of its rural policy 'The encouragement of co-operation among primary producers'.

Nevertheless in some quarters in Australia there seems to be a feeling that Statutory Boards are the most effective way of agricultural marketing. But are they necessarily good marketers in a competitive situation?

Here I believe it is important to draw a distinction between the marketing of commodities which are sold in bulk or in an unprocessed state and the marketing of commodities which are packaged or processed for sale in the retail store. Nobody could deny the excellent job done by the Australian Wheat Board in selling to the world. However, it handles a commodity which, in the main, is disposed of in exactly the same form in which it leaves the farm; the purchasers of the world do the processing. This is a very different marketing situation from the one I have been talking about for meat and which I believe also exists in other 'supermarket' commodities; for example canned and fresh fruits, milk, butter, cheese and fish.

In the United States food processing is the growth area of agribusiness, as the American consumer is continually demanding more variety and convenience. Co-operatives by themselves play a major role in food processing. Also they have entered into the field in joint ventures with large food corporations, and they have made contracts with the corporations to supply the raw material.

Surely the presence of an active co-op. in the market place, under producer control, will exert an influence and ensure producers that their product gets its share of the market and that the margin of profits throughout the industry is not excessive.

The Co-operative is also closer than Statutory Boards to the suppliers of the raw material; it is directly accountable to them and is, I believe, more flexible than a single marketing authority. It can and does enter into partnerships.

For producers who want to iron out the fluctuations in a season or period, a co-operative can arrange a pooling system, or it can arrange contract selling. It can provide alternative systems which can be accepted or rejected on a voluntary basis.

I believe too that competition in handling, processing and marketing is often the soundest method of achieving maximum penetration of markets and ultimately the best return to the producers.

Brand names, packaging, advertising (all part of marketing), demand exacting skills - skills which will grow in importance in the years ahead. There must be continual innovation if Australian produce is to compete successfully in the five continents we serve - and that probably comes best from competition amongst marketers.

Government Boards or agencies have a real role to play in laying down standards of quality; they also are sometimes well placed to establish a world-wide market information service. But when it comes to the sheer hard work and imagination required to sell a range of packaged meats, or fruit, to retailers and supermarkets around the world (in competition with the rest of the world) then agricultural co-operatives can play a dominant role.

I believe too that co-operatives have shown their ability to be leaders in the various marketing fields they have embraced. However, if we are to continue to be a force in the marketing of agricultural products, they must be directed and managed by people with a fierce determination to push them ahead; to fight for their place in the market place.

Co-operative management today must be viewed as a professional task from beginning to end. This requires a different kind of thinking than many have been used to, it requires recognition by Boards of Directors of the need to acquire and train management at all levels within the co-operatives. The success of co-operatives in the future will depend largely upon the capacity of our management teams to function effectively and of Boards of Directors to back good managers.

Co-operatives basically are a joining together of farmers to improve the results from their farming operations. They, the farmers, have got to have the interest and determination to see that their co-operatives grow.

If you, as directors or managers, want co-operation to flourish, you cannot afford to be passive. You have got to decide what you want to bring about. You have to plan how to do it and then go about it with determination and drive - always making sure that your shareholders know your ambitions and support them.

I believe the agricultural co-operatives of Australia, which already have such a wide role in the marketing of agricultural produce, can further increase their value to their members and to the Australian community, by deciding to follow through to the end of the marketing chain the things which they are handling. This will mean hard work; it will mean journeyings to the end of the earth, it will mean competition with the keenest of the multi-national food marketers. But why not? If we do this and do it successfully, our members will benefit, our governments will have co-operatives as active allies in trying to develop the

Australian export trade, and co-operatives will build up a body of skilled marketing experience, capable of coping with the ever changing requirements of the world.

The historian, Arnold Toynbee, traces the history of 21 civilisations which have risen in the past 6,000 years through eras of 'challenge and response'. Peoples have survived if they have responded creatively - so it will be with co-operatives.

QUESTIONS TO - MR K.W. EDWARDS

Q. L. Gibbs - Newcastle

In view of Mr. Edward's recent visit to the People's Republic of China as a member of the Federal Government Trade Mission is there evidence of opportunities for agricultural markets in that country?

A. The impression gained during the tour was that China is a well organised reasonably self sufficient country in agricultural and consumer,requirements. Seasonal conditions and developments could change the situation to provide further marketing opportunities for grain, tallow and possibly in the future some fibres and minerals.

Q. W. Huxley - Co-operative Bulk Handling

What would you give as the apparent difference between communism and Co-operative effort?

A. The essential difference would appear to be the difference between state control and voluntary self help operations.

Q. M. Clayton - Westralian Farmers

What could be done to improve the efficiency of Co-operative Boards of Directors?

A. The most effective business operations co-operative or non-co-operative are those where an obvious partnership exists between the Board of Directors and senior management. Directors themselves must assess their own training requirements and ensure arrangements are made for any short comings in their knowledge, either of the individual business of which they are directing or in general commercial activities, to be remedied.

Q. J. Hogkinson - Co-operative Insurance

There is apparent loose association in Australia of agricultural Co-operatives both of recent formation and of long duration. Is there any trend in other areas of Co-operative activity to operate on a more national basis to help compete with the large national and multi-national organisation?

A. A role of Directors and management has been to liaise with fellow Co-operatives on an industry basis. Capital of Co-operatives is raised on a state basis and a decision to operate at national level is obviously a big one. However, the trend is likely to develop if benefits to producers and consumers can be demonstrated and accepted.

Q. T. Lawless - Morwell

Westralian Farmers Co-operative is obviously a big organisation. What is being done about and how important do Board and Management consider education of staff and members in Co-operative principles and philosophy?

A. As with any commercial enterprise the business must produce a surplus to satisfy its members and also to demonstrate its efficiency as a commercial enterprise. The members are involved through meetings and extension services provided by various departments of the Co-operative.

There is difficulty in establishing the basic philosophies of co-operation amongst farmers when this is not related to the economic aspect of co-operation.

Q. L.F. Clay - Mildura Fruit

In these days commodities are costing more to merchandise than to produce. Surely this is very dangerous to the producers who, without control over the whole merchandising operation, is likely to become a mere serf in the economic structure of production and marketing.

A. This is so, but the consumer has the final say and it is essential that producers produce and sell what the consumer requires and provide them in attractive form to encourage acquisition by the consumer. At the same time the producer must protect himself by ensuring his control through his co-operative organisation of the processing and marketing of his produce.